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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003098

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SUBJECT: BEIJING PRESSING TAIWAN IN CENTRAL AMERICA

REF: TAIPEI 1575

Classified By: AIT Deputy Director David Keegan, Reason 1.4 (b/d)

1. (C) Summary. Central American Ambassadors in Taipei tell AIT that it is increasingly difficult for their countries to maintain diplomatic ties with Taiwan due to Beijing's campaign to exert economic and political pressure in the region. The PRC is offering lucrative economic incentives, sponsoring trade delegations, and tapping Central American business leaders to lobby government officials to recognize Beijing. Aid scandals have also tarnished Taiwan's image in Central America, and 2006 could be a crucial watershed for Taiwan as new governments assume power in Costa Rica, Nicaragua, and Honduras. The Ambassadors say new governments in Costa Rica and Nicaragua could derecognize Taiwan, which could then influence other countries in Central America to follow suit and switch ties. They suggest that if Taiwan were to lose its foothold in Central America, the consequences for its international standing and current international strategy would be devastating and could force Taipei to reevaluate its cross-strait policies. End summary.

Beijing's Economic Campaign

2. (C) Beijing has embarked on a focused economic campaign to encourage Central American political leaders to expand ties and eventually recognize the PRC. Nicaraguan Ambassador Luis Wong told AIT that Beijing's strategy of building commercial ties and working with business groups to pressure Central American governments is having an affect. He explained that since last year several PRC trade delegations have visited Nicaragua, and Managua is considering allowing Beijing to open a trade office there. Wong noted that the PRC is pursuing a similar economic strategy all across Latin America but is particularly focused on Central America because of the region's extensive diplomatic ties with Taiwan. According to Panamanian Ambassador Julio Mock, Panama has been enticed by Beijing's booming market and efforts to lure Panamanian businessmen to the PRC. He noted that Panama City has already opened up trade offices in Beijing and Hong Kong and several PRC-sponsored trade fairs have been organized over the last year. Mock also told AIT that the PRC is funding trade associations and Chinese friendship groups to lobby the Torrijos administration to cut ties with Taiwan.

But Also Moving Beyond Trade

3. (C) The Ambassadors noted that Beijing is moving beyond trade in its efforts to promote its interests in the region. Panama's Mock told AIT that the PRC is working to establish a strategic foothold in Central America and argued that Washington should take notice. He said that Beijing is especially interested in Panama's Howard Air Force Base because of its multi-use facilities and strategic location. Mock surmised that Beijing is interested in controlling a megaport in the Canal zone, which he said would offer more than just economic benefits. Nicaragua's Wong told AIT that Beijing has promised to build Managua its own isthmus canal and offered the government use of PRC engineers and experts from the Three Gorges Dam project. Honduran Ambassador Marlene Talbott reported that Beijing is pressuring Central America via the UN's Latin America Group (GRULA), which consists of all nations in Latin America. Beijing, she said, is taking advantage of South America's interest in luring PRC investment and promoting closer trades by using GRULA to pressure Central America to break ties with Taiwan.

Aid Scandals Also Hurting Taiwan

4. (C) Taiwan's "check-book diplomacy" aid scandals have also hurt Taipei's standing in Central America. In late 2004, press allegations surfaced that Taiwan gave USD \$1.5 million to former Nicaraguan President Arnoldo Aleman and that USD \$1.4 million was funneled to former Costa Rican President Miguel Angel Rodriguez as part of Taiwan's aid package. While Taipei denied that direct cash payments were made to either president, the details surrounding the payments to Rodriguez and Aleman remain muddled, and the allegations of Taiwan's "check-book diplomacy" have had an adverse impact on Taiwan's reputation throughout the region. According to

Costa Rica's Ambassador Dr. Oscar Alvarez, there has been much criticism in the press and by law makers in Costa Rica that Taiwan's "check book diplomacy" foreign policy strategy is harming San Jose's interests. He added that such scandals have only put more pressure on the government in San Jose to derecognize Taiwan and support the PRC.

2006 the Breaking Point?

15. (C) The Ambassadors speculated to AIT that Central American policy towards Taiwan could change in 2006 when Costa Rica, Honduras, and Nicaragua see new governments come to power. Costa Rica's Alvarez opined that there is a good possibility that pro-PRC candidates will win in Costa Rica and possibly Nicaragua, and they would probably seek to switch diplomatic ties to Beijing. Alvarez assessed that Costa Rican presidential candidate Oscar Arias Sanchez, who was President from 1986-1990, will win the February 2006 presidential election. According to Alvarez, one of Sanchez's top priorities after assuming office will be to expand ties with Beijing and invest in the PRC market. Alvarez noted that during a recent visit to Taipei Sanchez expressed his displeasure with San Jose's relationship with Taiwan.

16. (C) Alvarez also admitted to AIT that two months ago Costa Rican Foreign Minister Roberto Tovar Faja told Alvarez in a confidential message that he believes Sanchez is already

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secretly preparing the conditions to switch ties to Beijing.

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Alvarez explained to AIT that the only thing that would slow Sanchez from recognizing the PRC is Costa Rican public opinion, which still supports San Jose's relationship with Taiwan. However, Alvarez explained that over the last two years there has been a focused pro-PRC public relations campaign criticizing Taiwan, exposing Taipei's aid scandals, and trying to sway public opinion to support the PRC. Although Alvarez would not speculate if Beijing were funding the anti-Taiwan campaign, he called the circumstances surrounding the anti-Taiwan campaign "suspicious."

17. (C) Meanwhile in Nicaragua, Ambassador Wong told AIT that the pro-PRC Sandinista party has been gaining clout and could very well win the November 2006 presidential election. Wong noted that within the Sandinista party, there are influential businessmen with PRC ties encouraging the government to switch alliances to Beijing. Wong argued that if the Sandinistas win in 2006, it is likely that they will switch ties to the PRC. (Note: The previous Sandinista government recognized Beijing from 1985 to 1990. End note). While Wong was not ready to predict that if Managua switched and recognized Beijing the rest of Central America would follow, he did predict that the region will undergo significant political changes in the next two years.

Switch Would Leave Taiwan Few Options

18. (C) Costa Rica's Alvarez suggested that a switch by Costa Rica or Nicaragua could be the beginning of the end for Taiwan's position in Central America, and would probably deeply damage its overall international standing. He was almost certain that if Sanchez wins in Costa Rica or a Sandinista government is elected in Nicaragua, the new governments would shift ties to Beijing and the remaining Central American nations would eventually follow suit. Alvarez said this would have international and political ramifications for Taiwan since Central America is arguably Taipei's most important remaining diplomatic region. He opined that such a diplomatic disaster could force Taipei to make concessions to Beijing since Taiwan would have little international legitimacy. But he argued for the sake of stability and peace in the Taiwan Strait, a Central American switch would help temper Taiwan's international political rhetoric because it would be such a tremendous blow and force the government to reevaluate the island's entire diplomatic and foreign policy strategy.

Comment: Few Options Left

19. (C) If Taiwan were to lose Central America, it would lose its most important diplomatic partners, and all that would remain would be a few token nations in Africa, the South Pacific, and the Caribbean. Such a result would be diplomatically disastrous and could put significant political pressure on the government to reevaluate the viability of its current foreign policy strategy. Although each of the Ambassadors AIT met with explained that at least until 2006, the region's Taiwan policy will remain unchanged, they noted that it is increasingly difficult to maintain ties with Taiwan because of Beijing's growing importance as well as

rising domestic pressure from business groups and the public which expect their governments to improve economic standards.

Beyond the short term, there may be little Taiwan can do to convince its partners in Central America to stay. As we noted (Reftel), there is little indication that Taiwan policy makers have begun thinking about how to respond to such an eventuality.

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